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DRAFT for Working Group III

January 9, 1956

MEMORANDUM

TO: Chairman, Economic Defense Advisory Committee

THROUGH: Executive Committee

FROM: Chairman, Working Group III

SUBJECT: Work Program for Working Group III with regard to U.S. Policy on Soviet-bloc Economic Penetration Activities in the Free World

Problem

To define the role of the economic defense community and particularly the responsibilities of Working Group III in the development and coordination of U.S. policy with regard to Soviet-bloc economic penetration activities in the Free World.

Discussion

1. In the first half of 1955, EDAC Working Group 5 (predecessor of Working Group III) prepared general policy papers for use in the Operations Coordinating Board (OCB) and the Council on Foreign Economic Policy (CFEP) with respect to U.S. policy on economic penetration of underdeveloped areas by the Soviet bloc. Staff Study No. 12, prepared for the CFEP presentation, set forth certain suggested courses of action. These were generally endorsed inter-departmentally and were reflected in the correlative redraft of the governing NSC directive on economic defense (NSC 152/3). This statement of national policy has not been formally approved by the CFEP or NSC; the 1953 policy directive (NSC 152/3) consequently remains in force.

2. Pursuant to the CFEP review, the Executive Committee of EDAC designated Working Group 5 to maintain a general continuing examination of the need for action by responsible EDAC agencies in matters relating to Soviet economic penetration in underdeveloped areas. At its meeting in September 1955, Working Group 5 requested the Office of Intelligence Research (OIR) in State to prepare two area and two or three commodity studies to provide additional up-to-date data for the Working Group's examination. These studies are nearing completion.

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3. The continuing expansion of Soviet-bloc foreign economic penetration activities has made it increasingly imperative that the 1953 statement of national ~~U.S.~~ policy ~~for the U.S. on the Soviet-bloc's~~ foreign economic activities be brought up to date. By this is meant not only measures which immediately increase the dependence of a free-world country on the bloc or grant the bloc special economic privileges, but also any of the economic activities which would provide the basis for increased dependence. The need exists independent of the numerous policy reviews of U.S. foreign economic policy and aid programs being undertaken elsewhere. Some of these reviews will necessarily involve broader economic considerations and policies governing military or psychological programs. Such concurrent general reviews--whether in OCB, NSC or other interagency forums--do not relieve the economic defense community of the need for reviewing Soviet-bloc foreign economic penetration activities and related U.S. policies in the context of directives under which EDAC operates.

Only after an up-to-date statement of national policy has been developed can the current interrelationship of EDAC community responsibilities with those of other groups be clearly delineated and a definite means of coordination established.

4. The recommendations below are designed to establish a work program for Working Group III.

The major assignment is to undertake a review of the pertinent sections of NSC 152/3 in the light of the above-mentioned circumstances. This review would be expected to produce revised statements of Paragraph 13 of the General Considerations; Paragraphs 19b, c; Paragraphs 32, 33, 34 and 36 of the General Objectives; and other appropriate related paragraphs.

Thorough consideration would be given to the agreed interagency recommendations for revision contained in the "Comparative Draft of Revised Statement of Policy on Economic Defense" (Prepared for CFEP, July 1955). The new revision, however, must necessarily be independent and must reflect the recent developments, and current requirements and cover the entire field of U.S. economic defense policy vis-a-vis Soviet foreign economic penetration operations.

It would be intended that the recommendations for restatement of the pertinent sections of NSC 152/3 would be passed through EDAC channels to the CFEP and presented as a fulfillment of the Council's outstanding request. CFEP would be requested to forward the recommendations for NSC consideration.

In the reviews prepared by Working Group 5, it has been assumed that current U.S. foreign economic policies and programs adequately serve as a general counterweight to Soviet efforts at economic penetration in the Free World. Even on the basis of this assumption and within existing general policy directives, Working Group III can reasonably be expected to undertake a number of tasks of policy implementation and coordination. Staff Study No. 12 lists items necessitating continued study. It is, therefore, expected that pending the proposed review of national policy, Working Group III would be active in surveillance operations authorized by existing directives and in developing further the facilities for access to information which would be required for implementation of any type of U.S. policy activity in this field.

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# Recommendations

1. Working Group III shall ~~cause to be set up~~ arrangements for the systematic and continuing flow to it of collated and analyzed data on the Soviet bloc economic activities in the Free World. (The Research Planning Panel of Working Group III shall be given the task of developing these arrangements.)

2. Working Group III shall undertake a review of existing national policy directives (NSC 152/3) which place responsibility on the economic defense community with regard to Soviet bloc economic penetration activities in the Free World. This review will consist of

a) A new study of the current status and impact of Soviet bloc economic activities in Free World countries and correlative aspects of U.S. foreign economic programs as related to economic defense matters to replace Staff Study No. 12; *prepared by [unclear]* 5/4

b) A review of existing national policy directives to the economic defense community in NSC 152/3 on the subject of Soviet economic activities in the Free World and revision of the pertinent paragraphs ~~in order to bring the policy directive up to date;~~ such proposed policy ~~statement to be forwarded through EDAC channels to the Council on Economic Foreign Policy and thence to the NSC.~~

3. Pending specific new assignments developing out of the above-mentioned policy reconsideration, Working Group III shall undertake active surveillance of Soviet bloc economic activities in the Free World, examining individual cases in the light of existing policy responsibilities (NSC 152/3) to (a) demonstrate the risk of excessive reliance on the Soviet bloc as a trading partner; (b) encourage by all reasonable means support of the development of alternative markets and sources of supply within the Free World so as to reduce dependence of the Free World on Soviet bloc markets and sources of supply.

4. Working Group III shall keep the Executive Committee apprised of information which it receives on the work programs and recommendation of other inter-agency groups dealing with the development and implementation of U.S. economic policy vis-a-vis Soviet bloc economic penetration activities in the Free World.

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